

SECTION 2

ABUSIVE SCHEMES

Abusive Schemes

Since the mid-1990s, the IRS has witnessed a proliferation of abusive tax schemes, particularly those with offshore components. Originally, those schemes took the structure of abusive domestic and foreign trust arrangements. However, abusive schemes are evolving into sophisticated arrangements that take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit/debit cards issued from offshore financial institutions.

IRS Criminal Investigation (CI) has developed a nationally coordinated program to combat these abusive tax schemes. CI's primary focus is on the identification and investigation of the tax scheme promoters, as well as those who play a substantial or integral role in facilitating, aiding, assisting or furthering the abusive tax scheme (e.g., accountants, lawyers.) Secondly, but equally important, is the investigation of investors who knowingly participate in abusive tax schemes.

What is an Abusive Tax Scheme?

The Abusive Tax Schemes program encompasses violations of the Internal Revenue Code (IRC) and related statutes where multiple flow-through entities are used as an integral part of the taxpayer's scheme to evade taxes. These schemes are characterized by the use of trusts, Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), International Business Companies (IBCs), foreign financial accounts, offshore credit/debit cards, and other similar instruments. The schemes are usually complex, involving multi-layer transactions for the purpose of concealing the true nature and ownership of the taxable income and/or assets.

"Form over substance" are the most important words to remember before buying into any arrangement that promises to "eliminate" or "substantially reduce" your tax liability. The promoters of abusive tax schemes often employ financial instruments, such as trusts, in their schemes. However, the instruments are used for improper purposes, including the facilitation of tax evasion.

Additional Resources

- [Where Do You Report Suspected Tax Fraud Activity?](#)
- [Table of Contents - Abusive Tax Schemes](#)
- [Criminal Investigation \(CI\)](#)